Great Northern Capital Corporation Limited

Annual Report 1971

Contents

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Osler, Hoskin & Harcourt
Toronto

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Investment Manager
Anmercosa Finance Limited
Toronto

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Soo Line Mills (1969) Ltd.
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* R. M. THOMSON
Chief General Manager
The Toronto-Dominion Bank
Toronto

*Member of Executive Committee

Officers

R. H. McISAAC
President

E. D. MARCHANT, C.A.
Vice President—Finance

J. C. DAVIES, C.A.
Vice President—Properties

C. D. SMITH, P.Eng.
Vice President—Engineering & Construction

G. W. RAGOTTE, C.A.
General Manager, Administration

J. K. McLAUGHLIN, B.A., LL.B.
Secretary

D. E. FOX, C.A.
Treasurer

The Annual Meeting of Shareholders of Great Northern Capital Corporation Limited will be held on Wednesday the 15th day of March, 1972 at 2:30 P.M. (Eastern Standard Time) in the Humber Room, the Old Mill Restaurant, 21 Old Mill Road, Toronto, Ontario.

Officers of GNC Industries Limited

R. H. McISAAC
Chairman & Chief Exec. Officer

A. V. MAURO, Q.C., LL.M.
President
Toronto

G. C. McISAAC
Vice President and General Manager
Western Division
Winnipeg

H. V. HENDERSON
Vice President and General Manager
Brick Division
Burlington

Registrars and Transfer Agents:
CROWN TRUST COMPANY
Toronto, Montreal, Calgary and Vancouver
THE BANK OF NOVA SCOTIA TRUST CO. OF NEW YORK

Listing:
The Common Shares of the Company are listed on
The Toronto Stock Exchange
(GRN)

Auditors:
CLARKSON, GORDON & CO.—Toronto

Head Office:
14th Flr., 123 Edward St.,
Toronto, Ontario.

PRESIDENT'S REPORT TO THE SHAREHOLDERS

I believe this annual report of your Company to be the most significant for some years and certainly since I became President in 1969.

It signals, in my opinion, a turning point in the history of the Company. I would like now, rather than at the customary closing, to acknowledge with sincere appreciation the support and commitment of the Board of Directors and employees that made this possible.

The complete reorganization of the Company, formalized in the final quarter of 1970, created like asset groups as profit centres for better management control and the measurement of performance. These profit centres were in turn incorporated into three separate operating divisions. 1971 was the first year under this structure and, in order that you and the investment community in general have the same opportunity as your management to analyze and measure investments and operating results, we have in this report disclosed the results for each division.

The consolidated 1971 net income of your Company as reported is $5,038,321 or $2.14 per share. This represents a 56% improvement in earnings and follows a 45% improvement in 1970. A special land sale accounted for a substantial portion of the 1971 profit increase.

Consolidated cash flow per share of $2.73 in 1971 shows an improvement of 73% over 1970.

During 1971 our Canadian land development programmes showed decided improvement. The relative slowdown in new home construction experienced last year because of high mortgage costs seems to be corrected and we look for a continuation of the improvement in this area. This continued demand for new housing units in Canada is encouraging us to direct our attention into new housing forms and new land use patterns.

The somewhat improved situation with respect to the cost of mortgage financing enabled us to commence three income properties this year with an aggregate value of approximately $12 million. Investments in income properties will continue to be emphasized with a view to creating more balance between income from our land sales operations and the more stable income from income properties.

Operating profit on income properties decreased by $116,000 from 1970 to 1971. This was caused principally by two recently completed buildings which were included in operating results for the first time in 1971. The operating costs of income properties are relatively fixed once operations commence; however, rental income takes time to build to an acceptable level.

Our leisure property operations in the United States, which were hard hit in 1970 by the depressed economy, have now responded to improved conditions. Our 1971 sales are approximately 25% better than the previous year and we feel that 1972 will see continuation of the trend at our major projects, Hemlock Farms and Lake in the Clouds, and we will resume operations at our two other properties, Rainbow Lake and the Headlands.

GNC Industries Limited achieved record earnings during 1971. Increased residential

construction resulted in expanded sales for our brick plant and we anticipate operating at full capacity throughout 1972. While the mining and heavy equipment sector of the economy was less buoyant than in the preceding year, improved operating efficiency coupled with cost controls resulted in a major contribution from our mining services and equipment operations. We anticipate continued improvement in profit levels during the current year.

Your Company's entry into the prefabricated modular home industry was accomplished just after the end of the year with the acquisition of the production facilities of Alcan Universal Homes located in Woodstock, Ontario.

Prefabrication is a fast growing concept in the production of homes and this new investment, together with the operations of Diamond Clay Products, is the beginning of what will be a building products and services division.

Your management is encouraged with the results and promise of the future.

The performance of most companies in the real estate industry is difficult to assess. The difficulty arises primarily, we think, in three areas: assessing the underlying values of appreciating assets; attempting to measure annual performance; and understanding the debt structure.

Since the real fiscal period of a real estate project may run from a matter of months to many years, depending on its nature, annual performance often defies calculation. Accepted financial presentation makes it difficult to determine the value of projects in process and their impact on liquidity. The special form used to present Great Northern's assets and liabilities in Schedule "A" assists in evaluating performance based on these two important criteria, as well as offering an insight into the methods used to finance a real estate company.

In Schedule "A" debt is separated into three categories: general corporate, specific and self-liquidating. General corporate debt is self-explanatory. Specific debt is mortgages payable on undeveloped land. Self-liquidating debt on income properties is mortgages payable on income properties with cash flows established to assure a payout. Self-liquidating debt on leased assets relates to computers and 737 Boeing jets that are covered by lease agreements ensuring a complete payout.

To evaluate a real estate holding, mortgages on undeveloped land must be compared to the current market value of the mortgaged assets, particularly when the carrying costs of undeveloped land have been capitalized as they have in our Company since 1969. Our specific debt of $5.1 million leaves a very comfortable margin of safety on the market value of related undeveloped land of $26.7 million (Schedule "A").

Mortgages on income properties must also relate favourably to the underlying land values, and cash flow and the quality and nature of the site and structure must also be considered. Our self-liquidating debt of $4.4 million on income properties with a market value of $8.3 million is considered to be more than safe on new structures with rental experience.

Mortgages must be at rates that are favourable in relation to current interest rates. Our rates are good at an average of 7.8% on raw land and 7.4% on income properties.

This type of debt analysis is necessary in realty companies before any meaningful assessment can be made of the debt to equity ratio. It follows logically that companies with large portfolios of good quality matured rental properties can sustain a higher debt ratio.

The detailed amount of information and the explanations given in this report will assist you in assessing your Great Northern Capital holdings. Our industry, as one that creates values and holds appreciating assets, is worthy of greater interest on the part of investors. Realty companies must do more to inform people of the merits of our industry so that future financing of worthwhile projects will be seen as the premium investments they really are.

On behalf of the Board,

President.

CORPORATE STRUCTURE

Great Northern Capital Corporation Limited	Leasing Operations	Engineering Services

Home Smith Limited

Home Smith Properties Limited, developing in

Toronto	Winnipeg
Markham	Calgary
Burlington	Edmonton
Etobicoke	Sherwood Park
Oakville	Saskatoon
	Vancouver

Home Smith International Limited

Hemlock Farms	Rainbow Lake Club
Lake in the Clouds	The Headlands

GNC Industries Limited

Midwest Drilling	Canadian Cutting and Coring Limited
Wescore Drilling Limited	Canadian Cutting and Coring (Toronto) Limited
Delro Industries	Canadian Cutting and Coring (Vancouver) Limited
Midwest Diesel & Equipment	GNC Homes
Diamond Clay Products Limited	

Land assembly of the realty operations in Ontario consist of a number of parcels in Toronto and Etobicoke; 590 acres in Markham; 650 acres in Burlington; and 1,038 acres in Oakville, on which we plan a total community concept, "Glen Abbey".

In Alberta we are continuing the development of Sherwood Park, our 2,700-acre total community east of Edmonton, and its Eastgate Shopping Centre scheduled to open this year. We have a 55% interest in 262 acres of land in the northwest section of Saskatoon, Saskatchewan, and own small parcels of land in Winnipeg, Manitoba and Vancouver, B.C.

Income properties also include a townhouse development in Markham, the Toronto Professional Building, and a 51% interest in a $6.1 million shopping centre under construction in Toronto; a 75% interest in an 80,000 sq. ft. office building in Calgary; a 75% interest in a 133-suite apartment building under construction in Edmonton, Alberta; and a 75% interest in the Towers of Polo Parka 15-storey residential-commercial building in Winnipeg, Manitoba.

Properties purchased as early as 1963 in anticipation of future markets for leisure properties include:

- Hemlock Farms with its more than 4,500 acres in the Pocono Mountains in Pennsylvania. Containing three man-made lakes, bounded by game-filled State forest land, and full recreational facilities, more than 50% of the 6,000 lots have been sold, with strict architectural control being maintained over this four-season second-home community.
- Lake in the Clouds which is located 35 miles from Hemlock Farms, and is a small private vacation home community consisting of 300 acres with 75 acres of private lakes and streams
- The Headlands, a 270-acre development on Lake Champlain, in New York State, which will have approximately one-half of its 500 lots located on the 20,000-foot shoreline, and
- Rainbow Lake Club, a small vacation community of 240 acres in the Adirondack Mountains in New York, which has about 170 acres remaining to be developed.

With our Company's proven experience in total community building, it is now our intention to expand our operations into those of a total real estate company.

The industrial arm consists of nine companies in three provinces, with approximately 1,200 employees.

Midwest Drilling, one of Canada's top diamond drilling companies, has major operations in Manitoba, Saskatchewan, Northwestern Ontario, British Columbia, and the Yukon, while Wescore Drilling Limited performs underground drilling services in the Thompson, Manitoba area.

Midwest Diesel & Equipment distributes General Motors' Terex line and their Allison Division products including Detroit Diesel engines, as well as products of Dominion Engineering and Canadian Kenworth.

The three Canadian Cutting and Coring operations provide specialized services in concrete masonry core drilling, concrete sawing, and safety grooving of highways and runways.

Delro Industries manufactures diamond drilling products, and specializes in custom machining of aircraft engine components and automotive parts.

Diamond Clay Products, one of Canada's largest brick producers, has garnered additional markets with the recent introduction of Engineered Clay Masonry which utilizes full structural potential of clay masonry units.

GNC Homes will produce factory-manufactured housing commencing in 1972, using conventional building materials, some of which can be supplied within the Industries' group itself. The quality of the product achieved international recognition when it was marketed under the name "Alcan Universal Homes".

HOME SMITH LIMITED

1971 Financial Information

Consolidated Statement of Income

Revenue:	
Sales of land and houses	$9,376,000
Rentals from income-producing properties	1,109,000
Interest and other income	3,047,000
Gross revenue	13,532,000
Expenses:	
Cost of land and houses sold	5,269,000
Operating cost of income-producing properties	998,000
Selling and administrative	2,142,000
Interest:	
Long-term	26,000
Other	1,535,000
	9,970,000
Income before undernoted items	3,562,000
Income taxes	1,903,000
Income before extraordinary items	1,659,000
Add extraordinary items:	
Income tax credits resulting from the application of loss carry-forwards	1,492,000
Other (net) (2)	2,059,000
	3,551,000
Net income	$5,210,000

Consolidated Statement of Variation in Cash

Sources of Cash:	
Operations	$5,504,000
Decrease in investment in long-term leases	248,000
Other	46,000
	5,798,000
Applications of Cash:	
Increase in investment in land inventory	2,756,000
Increase in receivables	1,513,000
Decrease in deferred income taxes	651,000
Reduction of long-term debt	608,000
Investment in joint ventures	568,000
Investment in income-producing properties	351,000
Decrease in accounts and income taxes payable	288,000
Purchases of fixed assets	151,000
	6,886,000
Increase in Bank Indebtedness Net of Cash	$1,088,000

Consolidated Balance Sheet

Assets

Current:	
Cash	$ 31,000
Trade accounts and sale agreements receivable	7,137,000
Inventories:	
Land, including development costs	2,025,000
Prepaid expenses	133,000
Total current assets	9,326,000
Land inventory, less amount included in current assets	10,596,000
Notes, mortgages and sale agreements receivable, less amounts included in current assets	1,071,000
Investment in joint ventures	1,262,000
Income-producing properties, at cost, less accumulated depreciation	7,747,000
Fixed assets	1,705,000
Other assets	327,000
Due from parent company	1,983,000
	$34,017,000

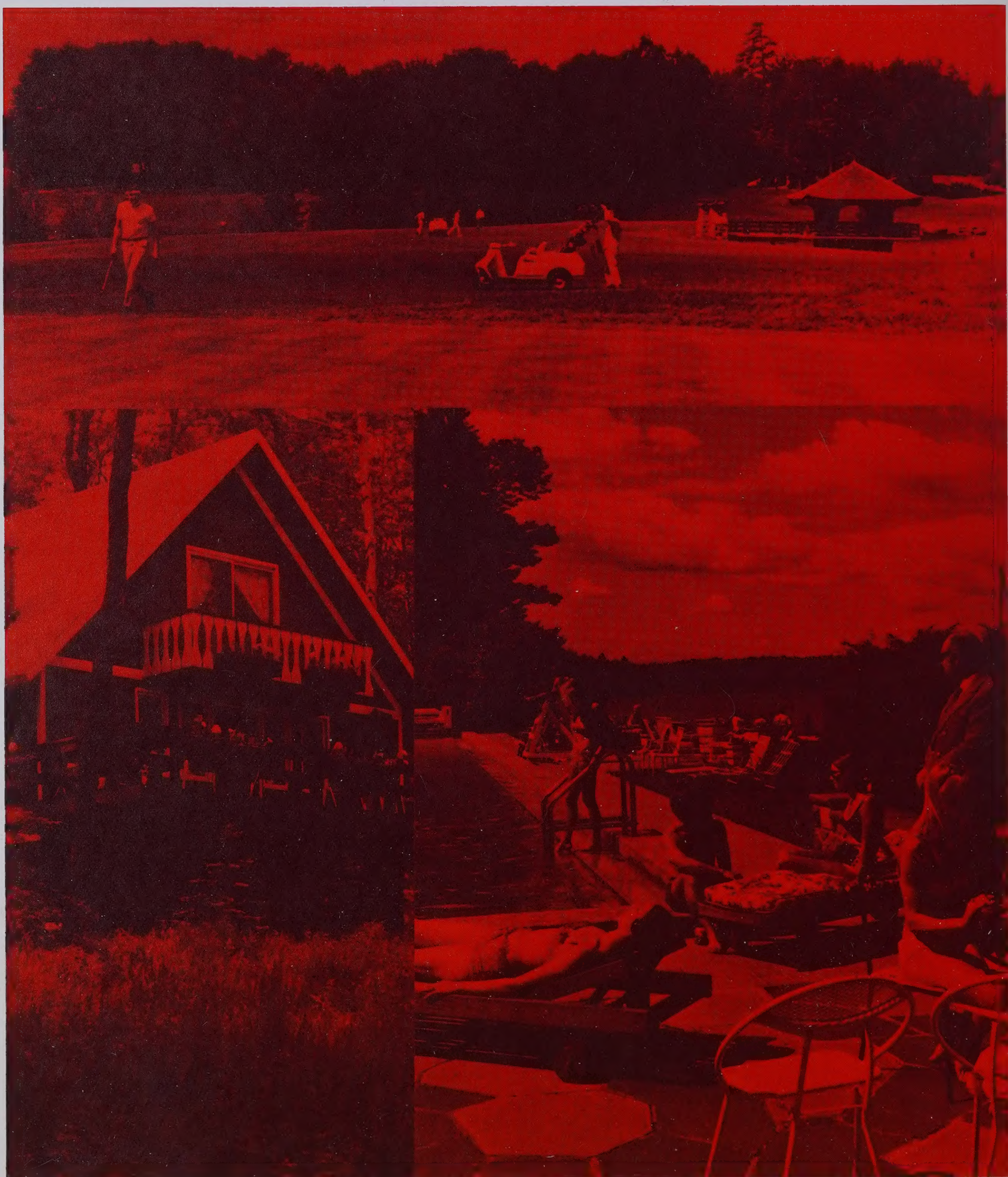
Liabilities and Shareholders' Equity

Current:	
Bank indebtedness	$ 913,000
Accounts payable and accrued liabilities	1,088,000
Income taxes payable	530,000
Estimated costs to complete subdivisions under development	659,000
Current instalments on long-term debt, including accrued interest	497,000
Total current liabilities	3,687,000
Long-term debt, less instalments included in current liabilities	7,930,000
Shareholders' equity:	
Capital stock	
Authorized:	
500,000 shares without par value	
Issued and fully paid:	
100,002 shares	33,000
Earned Surplus	22,367,000
Total shareholders' equity	22,400,000
	$34,017,000

Notes:

(1) Home Smith Limited is a wholly-owned subsidiary of Great Northern Capital Corporation Limited. On consolidation of this subsidiary with Great Northern Capital Corporation Limited and its other subsidiaries, intercompany transactions and investments are eliminated.

(2) Of the intercompany transactions eliminated, on consolidation of Home Smith Limited with Great Northern Capital Corporation Limited, the most significant are the gains on sale of the shares of a subsidiary and the loss on sale of aircraft to Great Northern Capital Corporation Limited. These two items, amounting to $2,052,650, are included in "extraordinary items—other" in the Home Smith Limited consolidated statement of income.



HOME SMITH INTERNATIONAL LIMITED

1971 Financial Information

Consolidated Statement of Income

Revenue:	
Land sales	$ 3,412,000
Interest and other income	222,000
Gross revenue	3,634,000
Expenses:	
Cost of land sold	995,000
Selling and administrative	1,995,000
Interest:	
Long-term	15,000
Other	—
	3,005,000
Income before undernoted items	629,000
Income taxes	320,000
Income before extraordinary items	309,000
Add extraordinary items:	
Income tax credits resulting from the application of loss carry-forwards	231,000
Other — net (2)	(90,000)
	141,000
Net income	$ 450,000

Consolidated Statement of Variation in Cash

Sources of Cash:	
Operations	$ 512,000
Decrease in investment in land inventory	378,000
Increase in long-term debt	281,000
Other	112,000
	1,283,000
Applications of Cash:	
Decrease in accounts and income taxes payable	631,000
Purchases of fixed assets	210,000
	841,000
Increase in Cash	$442,000

Consolidated Balance Sheet

Assets

Current:	
Cash	$ 447,000
Trade accounts and sale agreements receivable	154,000
Inventories:	
Land, including development costs	1,240,000
Other	8,000
Prepaid expenses	7,000
Total current assets	1,856,000
Restricted bank deposits	482,000
Land inventory, less amount included in current assets	2,124,000
Notes, mortgages and sale argeements receivable, less amounts included in current assets	41,000
Fixed assets	1,702,000
Other assets	27,000
	$ 6,232,000

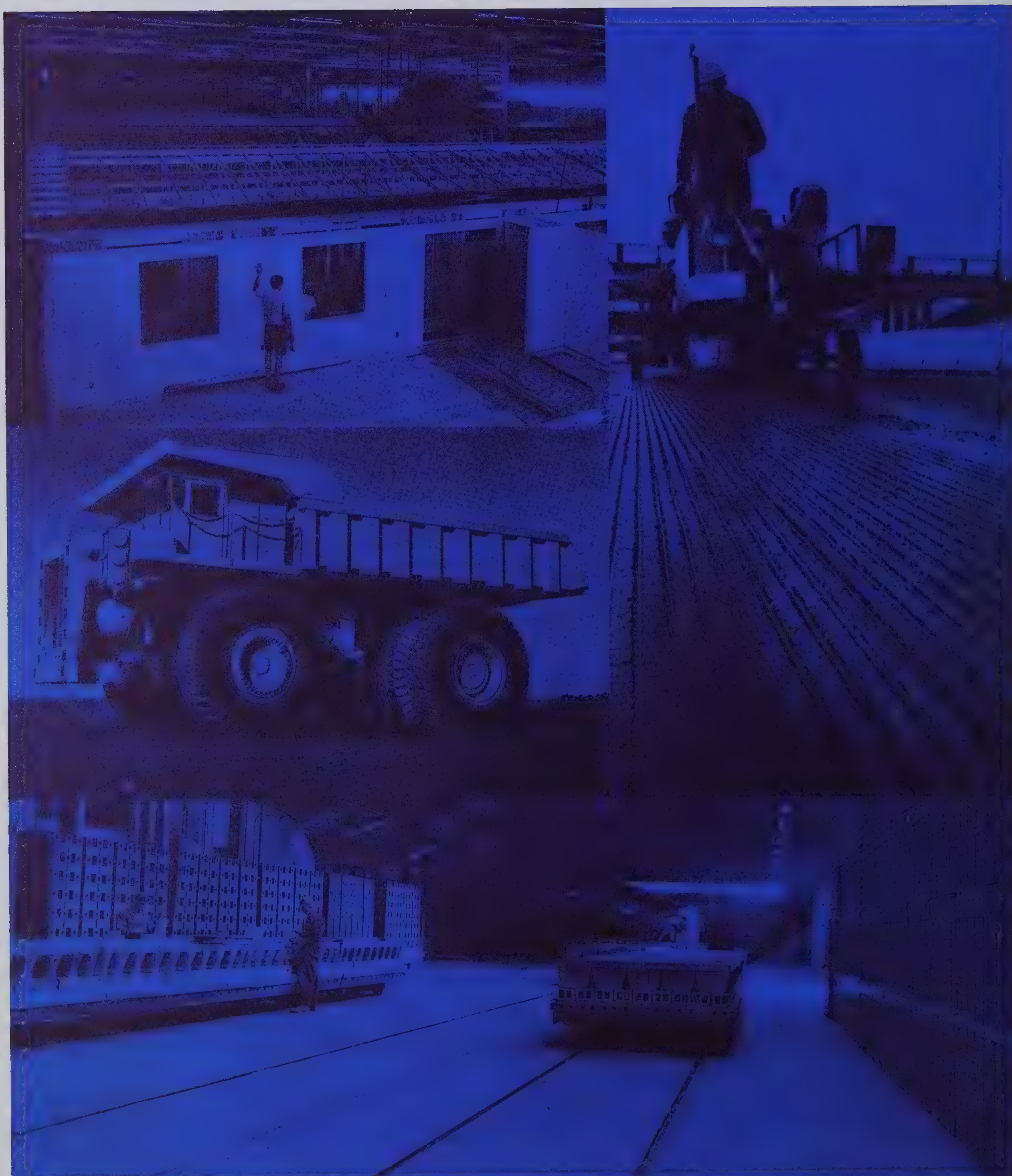
Liabilities and Shareholders' Equity

Current:	
Accounts payable and accrued liabilities	$ 601,000
Income taxes payable	140,000
Estimated costs to complete subdivisions under development	124,000
Current instalments on long-term debt, including accrued interest	329,000
Total current liabilities	1,194,000
Long-term debt, less instalments included in current liabilities	902,000
Shareholders' equity:	
Capital stock	
Authorized:	
15,000 Preference shares	
3,000,000 Common shares without par value	
Issued and fully paid:	
7,500 Preference shares	750,000
1,674,118 Common shares	2,649,000
Contributed surplus	7,000
Earned surplus	730,000
Total shareholders' equity	4,136,000
	$ 6,232,000

Notes:

(1) Home Smith International Limited is a 99.9% owned subsidiary of Great Northern Capital Corporation Limited. On consolidations of this subsidiary with Great Northern Capital Corporation Limited and its other subsidiaries, intercompany transactions and investments are eliminated.

(2) At December 31, 1971 the 7% convertible debentures of the Company were redeemed. The interest on those debentures, together with (i) certain intercompany interest which was incurred in 1971 but will not be incurred in the future, and (ii) certain non recurring costs and expenses have been reclassified to extraordinary items — other, to provide a more meaningful operating statement.



GNC INDUSTRIES LIMITED

1971 Financial Information

Consolidated Statement of Income

Gross manufacturing revenue	18,028,000
Expenses:	
Manufacturing cost of sales	13,349,000
Selling and administrative	3,601,000
Interest:	
Long-term	139,000
Other	85,000
	17,174,000
Income before undernoted items	854,000
Income taxes	490,000
Income before extraordinary item	364,000
Add extraordinary item:	
Income tax credits resulting from the application of loss carry-forwards	272,000
Net income	$ 636,000

Consolidated Statement of Variation in Cash

Sources of Cash:	
Operations	$ 1,211,000
Decrease in manufacturing inventories	1,067,000
Decrease in accounts receivable	436,000
Decrease in deferred income taxes	97,000
	2,811,000
Applications of Cash:	
Decrease in accounts and income taxes payable	1,766,000
Purchases of fixed assets	598,000
Reduction in long-term debt	210,000
	2,574,000
Increase in Cash Net of Bank Indebtedness	$237,000

Consolidated Balance Sheet

Assets

Current:	
Cash	$ 281,000
Accounts receivable	2,145,000
Inventories	3,343,000
Prepaid expenses	70,000
Total current assets	5,839,000
Fixed assets	4,727,000
Other assets	14,000
	$10,580,000

Liabilities and Shareholders' Equity

Current:	
Bank indebtedness	$ 113,000
Accounts payable and accrued liabilities	1,384,000
Income taxes payable	107,000
Current instalments on long-term debt, including accrued interest	82,000
Total current liabilities	1,686,000
Deferred income taxes	1,000
Long-term debt, less instalments included in current liabilities	1,802,000
Shareholders' equity:	
Capital stock	
Authorized:	
60,000 Preference shares	
1,000,000 Common shares without par value	
Issued and fully paid:	
52,000 Preference shares	5,200,000
560,000 Common shares	1,120,000
Earned surplus	771,000
Total shareholders' equity	7,091,000
	$10,580,000

Note:

GNC Industries Limited is a wholly-owned subsidiary of Great Northern Capital Corporation Limited. On consolidation of this subsidiary with Great Northern Capital Corporation Limited and its other subsidiaries, intercompany transactions and investments are eliminated.

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31

	1971	1970
Revenue:		
Sales of land and houses	$12,787,882	$ 9,794,164
Rentals from income-producing properties	1,108,551	925,488
Manufacturing and other	18,170,721	19,303,484
Leasing, interest and other income	2,982,761	2,395,727
Gross revenue	35,049,915	32,418,863
Expenses:		
Cost of land and houses sold	5,230,672	4,735,525
Operating cost of income-producing properties including interest of $423,296 ($290,710 in 1970)	998,546	699,404
Manufacturing and other cost of sales	13,519,175	14,680,226
Selling and administrative	7,882,700	7,259,688
Interest:		
Long-term (including debt discount amortization)	1,427,948	1,496,787
Other	584,553	524,604
	29,643,594	29,396,234
Income before undernoted items	5,406,321	3,022,629
Income taxes	2,762,000	1,990,000
Income before extraordinary items (note 13)	2,644,321	1,032,629
Add extraordinary items:		
Income tax credits resulting from the application of loss carry-forwards (note 16)	2,019,000	2,249,000
Other (note 15)	375,000	(47,592)
	2,394,000	2,201,408
Net income (note 13)	$ 5,038,321	$ 3,234,037
Depreciation, depletion and amortization included above	$ 750,824	$ 649,939

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SURPLUS

For the years ended December 31

Earned Surplus

	1971	1970
Balance at beginning of the year	**$11,259,890**	$ 8,022,026
Add:		
Net income	**5,038,321**	3,234,037
Gain on conversion of subsidiary's debt into common shares	**217,596**	3,827
Balance transferred from appraisal surplus	**47,149**	—
	16,562,956	11,259,890
Less:		
Write-off of excess of cost of investment in subsidiary company over the underlying book value of its consolidated net assets at dates of acquisition	**233,454**	—
Balance at end of the year	**16,329,502**	11,259,890

Appraisal Surplus (note 4)

	1971	1970
Balance at beginning of the year	**128,806**	139,023
Less:		
Amount earned on land sold during the year	**81,657**	10,217
Balance transferred to earned surplus	**47,149**	—
	128,806	10,217
Balance at end of the year	—	128,806
Total surplus	**$16,329,502**	$11,388,696

The accompanying notes are an integral part of the financial statements.

CONSOLIDATE

as at December 31

Assets

	1971	1970
Current:		
Cash	$ 767,951	$ 311,888
Trade accounts, leases and sale agreements receivable	11,503,481	13,024,218
Inventories:		
Land, including development costs of $2,669,000 in 1971 ($2,688,000 in 1970) (note 4)	3,239,847	4,244,703
Manufacturing and other, at the lower of cost or estimated net realizable value	3,395,625	4,479,107
Prepaid expenses	170,365	213,981
Total current assets	19,077,269	22,273,897
Restricted bank deposits (note 3)	482,283	452,706
Land inventory, less amount included in current assets (note 4)	11,665,788	8,657,141
Long-term leases, net of $8,482,000 unearned income ($10,505,000 in 1970), less amounts included in current assets (note 2)	9,396,250	8,830,331
Notes, mortgages and sale agreements receivable, less amounts included in current assets (note 5)	1,773,016	2,297,065
Other investment (note 6)	1,787,720	1,215,000
Investment in joint ventures (note 7)	1,261,841	867,727
Income-producing properties, at cost, less accumulated depreciation of $129,292 ($68,982 in 1970)	7,747,105	7,456,072
Fixed assets (note 8)	8,724,134	8,377,439
Other assets, at cost	158,683	282,242
	$62,074,089	$60,709,620

ALANCE SHEET

Liabilities and Shareholders' Equity

	1971	1970
Current:		
Bank indebtedness—secured (note 9)	**$ 6,356,117**	$ 6,174,303
Accounts payable and accrued liabilities	**3,189,542**	4,728,695
Income taxes payable	**776,985**	73,010
Estimated costs to complete subdivisions under development	**782,600**	2,115,027
Current instalments on long-term debt, including accrued interest	**3,289,616**	3,728,666
Total current liabilities	**14,394,860**	16,819,701
Deferred income taxes	**226,236**	229,128
Long-term debt, less instalments included in current liabilities (note 10)	**17,388,444**	19,370,935
5% convertible income debentures due 1979 (note 11)	**9,676,800**	9,677,100
Shareholders' equity:		
Capital stock (note 12)		
Authorized:		
7,500,000 shares without par value		
Issued and fully paid:		
2,469,757 shares (2,329,992 in 1970)	**4,058,247**	3,224,060
Surplus (notes 10 and 11)	**16,329,502**	11,388,696
Total shareholders' equity	**20,387,749**	14,612,756
	$62,074,089	$60,709,620

On behalf of the Board:

G. F. H. Nelson, *Director*

R. H. McIsaac, *Director*

The accompanying notes are an integral part of the financial statements.

Great Northern Capital Corporation Limited and its Subsidiary Companies

CONSOLIDATED STATEMENT OF VARIATION IN CASH

For the Years ended December 31

	1971	1970 Restated to Conform with 1971 Presentation
Sources of Cash:		
Operations	$ 6,419,997	$3,666,687
Decrease (increase) in notes, mortgages and sale agreements	1,744,786	(4,226,969)
Decrease (increase) in manufacturing inventories	1,083,482	(186,638)
Increase in long-term debt	759,070	1,941,000
Capital stock issued	125,990	—
Other	373,637	519,568
	10,506,962	1,713,648
Applications of Cash:		
Increase in investment in land inventory and development costs	$ 3,336,218	$1,344,101
Reduction in long-term debt	3,018,666	4,070,441
Purchases of fixed assets	1,032,054	817,030
Increase in other investment	572,720	215,000
Increase (decrease) in investment in joint ventures	567,094	(404,663)
Decrease in deferred income taxes	489,863	212,047
Investment in income-producing properties	351,343	897,014
Decrease (increase) in accounts and income taxes payable	835,178	(1,404,957)
	10,203,136	5,746,013
Decrease (increase) in bank indebtedness net of cash	$ 303,826	($4,032,365)

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1971

1. Statement Presentation

(a) Principles of Consolidation

In the accompanying financial statements the accounts of all subsidiary companies have been consolidated with those of the Company with the exception of a 51% owned company treated as a joint venture (note 7).

(b) Foreign Exchange

Foreign currency assets and liabilities of the Company and its domestic subsidiaries have been translated into Canadian dollars at current rates of exchange except for long-term debt which has been translated at the average rate prevailing on the forward exchange contracts arranged for these obligations. The Company has purchased future U.S. funds of $12,253,000 to cover U.S. debt obligations.

The accounts of U.S. subsidiaries and branches have been translated at current rates except for fixed assets and depreciation provisions which were translated at the historic rates prevailing at date of acquisition. Income and expenses (other than depreciation) were translated at the average exchange rate for the year.

The exchange adjustment for the year is not significant and has been included in selling and administrative expense.

(c) Minority Interest

Minority interest is not significant and has been included in selling and administrative expenses and in accounts payable.

2. Leasing Income

The Company has used the financing method to account for the revenue from long-term leases of aircraft and other equipment. Under this method revenue is recognized in decreasing amounts over the years so as to reflect a constant return on the net investment in the equipment.

3. Restricted Bank Deposits

The restricted bank deposits represent funds lodged with certain banks as collateral security on notes which are accepted from single-family lot purchasers and discounted with these banks.

4. Land Inventory

(a) Land is carried at cost which includes interest and property taxes.

(b) Appraisal surplus earned on land sold during the year has been grouped in cost of sales and the balance of $47,149 has been transferred to earned surplus as the remaining balance is not significant.

(c) Land inventory which is expected to be placed on the market within one year is classified as a current asset.

(d) Development expenses capitalized include all direct development expenditures and the pro rata share of the cost of community facilities, park dedications and school sites, but exclude general overhead.

Land sales are recognized and net income is recorded upon meeting the following criteria:

(i) receipt of 15% in cash;

(ii) commencement of interest on a sale agreement at a reasonable rate;

(iii) satisfaction of purchaser's financial stability.

5. Notes, Mortgages and Sale Agreements Receivable

Included in the balance are mortgage loans of $371,527 to certain senior officers in order to assist them in purchasing houses. During the year a further amount of $88,000 was advanced.

6. Other Investment

This investment represents the cost of 439,500 common shares (243,000 in 1970) of Transair Limited, representing a 14% interest, which has a quoted market value of $1,362,000 at December 31, 1971 ($765,000 at December 31, 1970). The dollar amounts do not necessarily represent the value of this holding which may be more or less than the amounts indicated by the market quotations.

7. Joint Ventures

The Company has an interest in a number of joint ventures which are carried on an equity basis. The Company's proportionate share of the revenues and expenses of the joint ventures is reflected throughout the consolidated statement of income.

In 1970, the Company's share of the net income of joint ventures was included in leasing, interest and other income on the consolidated statement of income, and the comparative figures for 1970 have been restated to conform with the presentation described in the previous paragraph. (see table 1 pg. 18)

8. Fixed Assets

Fixed assets, at cost, consist of the following:

	1971	1970
Land and land improvements	**$1,147,319**	$1,112,589
Buildings	**3,752,652**	3,706,416
Machinery and equipment	**7,244,744**	6,596,956
Country Club and golf course facilities	**1,632,195**	1,474,448
Clay deposit	**311,516**	311,516
	14,088,426	13,201,925
Less accumulated depreciation, depletion and amortization	**5,364,292**	4,824,486
	$ 8,724,134	$ 8,377,439

TABLE 1

Summary of Investment in Joint Ventures ($000 omitted)

Project	Working Capital	Inventory of Land and Houses	Income-Producing Property	Other Assets	Interim Financing	Long-Term Debt	GNC % Equity	Total Equity
Chinook Office Center, a nearly-completed office building project in Calgary..........	$(195)		$1,893	$ 13	$1,370	$ 39	75%	$ 302
The Galleria Development Limited, a shopping center project under construction in Toronto......	(709)		2,641	59	1,250	741	51%	—
Headland Homes, a residential and commercial land development project in Burlington........	(692)	$1,935		16		780	50%	479
River Heights, a residential land development project in Saskatoon................	(183)	691				66	55%	442
The Towers of Polo Park, an operating residential-commercial building project in Winnipeg...	(946)		3,778	243		2,740	75%	335
Westmount Apartment, a residential building project under construction in Edmonton.....	(159)		491	68			75%	400
	$(2,884)	$2,626	$8,803	$ 399	$2,620	$4,366		1,958
Less partners' share of equities and certain other adjustments..								696
Company's equity............								$1,262

9. Bank Indebtedness

Assets having a book value in excess of the bank indebtedness have been pledged as collateral against this liability.

10. Long-Term Debt

Long-term debt consists of the following:

	1971	1970
Great Northern Capital Corporation Limited—		
5½% notes due 1972 to 1976 (U.S. $2,600,000 in 1971; U.S. $3,100,000 in 1970).........	**$ 2,663,440**	$ 3,175,640
6% — 10¾% loans due 1972 to 1976 (U.S. $5,952,625 in 1971; U.S. $7,093,550 in 1970).........	**6,097,869**	7,266,631
	8,761,309	10,442,271

Subsidiary Companies—		
7% subordinated convertible debentures Series A due June 30, 1973	—	733,400
7½% provincial development loans.	**1,827,853**	1,886,609
Mortgages—		
6% due 1972 to 1978	**600,690**	867,958
6¾% due 1972 to 1977	**352,400**	388,700
7% due 1972 to 1990	**4,135,953**	4,428,102
7½% due 1972 to 1976	**268,097**	384,157
8% due 1972 to 1979	**1,514,509**	1,031,803
9% due 1972 to 1975	**959,150**	1,043,150
9⅜% due 1972 to 2006	**771,728**	775,967
9½% due 1972 to 1976	**759,070**	—
Other	**246,334**	695,678
	11,435,784	12,235,524
Total long-term debt	**20,197,093**	22,677,795
Less instalments included in current liabilities	**2,808,649**	3,306,860
	$17,388,444	$19,370,935

Amounts due on repayment of long-term debt in each of the next five years are as follows:

1972	$2,809,000	1975	$2,733,000
1973	$2,742,000	1976	$1,652,000
1974	$2,874,000		

The Company is required to apply to the prepayment of the 5½% notes, without premium, the sum of U.S. $500,000 on December 1 in each of the years 1972 to 1975 inclusive, and U.S. $600,000 on December 1, 1976. The Company may prepay the 5½% notes at any time upon payment of a premium of 1½% to November 30, 1972 decreasing ¼% annually to November 30, 1976 and without premium thereafter.

11. 5% Convertible Income Debentures

The debentures are convertible into common shares of the Company at the following prices: $10.00 per share up to May 30, 1972; $12.50 per share up to May 30, 1973; $14.28 per share up to May 30, 1974; $16.66 per share up to May 30, 1975 and $20.00 per share up to May 15, 1979.

The debentures are redeemable at par at the option of the Company in whole or in part at any time before maturity on May 15, 1979.

12. Capital Stock

Capital stock issued during the year consists of the following:

	Number of Shares	Total Consideration
Shares issued on conversion of $696,900 debentures of a subsidiary company on the basis of one share for every $6.00 principal amount of debentures (see below)	116,144	$696,864
Shares issued for cash at $7.00 each on exercise of share purchase warrants of Home Smith International Limited	300	2,100
Shares issued under employee options at $5.68 and $6.86	21,500	123,890
Shares issued for a consideration of $6.16 each in exchange for shares of Home Smith International Limited on a basis of one common share of the Company for each two common shares of Home Smith International Limited	1,791	11,033
Shares issued for a consideration of $10.00 each on conversion of $300 5% convertible income debentures of the Company	30	300
	139,765	$834,187

On December 31, 1971 the 7% subordinated convertible debentures Series A of Home Smith International Limited were called for redemption by that company. Holders of a substantial amount of these debentures exercised their option to convert into shares of the Company. The remainder of the debentures, including intercompany holdings of $2,818,100, were redeemed prior to the year end.

In a prior year, the Company entered into a supplemental indenture with the holders of share purchase warrants of Home Smith International Limited. The supplemental indenture provides that the Company shall guarantee the performance of all Home Smith obligations under the original indenture and that the conversion privilege and right of purchase provided for under the indenture shall be exercisable in shares of the Company up to June 30, 1973 on the basis of one share of the Company for every two share purchase warrants plus $7.00.

The Company has set aside 1,194,157 common shares for the following purposes:

Exercise of share purchase warrants of Home Smith International Limited (see above)	128,977
Conversion of 5% convertible income debentures of the Company (note 11)	967,680
Stock option plan	97,500
	1,194,157

During the year, the Company granted to senior officers options on 10,000 common shares at $6.86 under the stock option plan. Options on 21,500 common shares were exercised during the year and options on 1,000 common shares expired. At the year end options are outstanding on 20,000 common shares at $5.68 and 7,500 common shares at $6.86. These options are exercisable at varying dates expiring February 1, 1974 and July 6, 1976, respectively.

13. Earnings Per Share

	1971	1970
Basic earnings per issued common share (see (a) below)		
Before extraordinary items	**$1.12**	$0.44
After extraordinary items	**2.14**	1.39
Fully diluted earnings per share (see (b) below)		
Before extraordinary items	**0.89**	0.47
After extraordinary items	**1.57**	1.08

(a) Based on the weighted average number of shares outstanding during the year.

(b) In the above summary, the fully diluted figures reflect the income per share that would have existed if:

(i) all the 5% convertible income debentures had been converted into common shares at $10.00 per share on January 1, 1970;

(ii) all the 7% subordinated convertible debentures of Home Smith International Limited, excluding those held intercorporately, had been converted on January 1, 1970;

(iii) all the outstanding share purchase warrants of Home Smith International Limited had been exercised on January 1, 1970;

(iv) all stock options granted had been exercised on the various dates of issue.

For the purpose of all calculations in (iii) and (iv) above, earnings of $80,090 ($99,500 in 1970) have been imputed at a rate of interest based on the current cost of the Company's bank borrowings.

14. Commitments and Contingent Liabilities

(a) As at December 31, 1971 subsidiary companies are contingently liable for discounted sale agreements and conditional sale contracts in the approximate amount of $3,700,000 ($3,653,000 in 1970) and mortgage loans in the approximate amount of $286,000 ($528,000 in 1970).

(b) In connection with the joint ventures referred to in note 7, the Company is contingently liable for all the indebtedness of joint ventures which approximates $7,700,000 at December 31, 1971. Against this contingent liability the Company would have claims on the joint ventures' related assets which are primarily income-producing properties.

(c) At December 31, 1971 the Company is committed to expend further amounts of approximately $6,000,000 on income-producing property projects and land development projects which are presently in progress and for which financing has been arranged.

15. Extraordinary Items—Other

Details of extraordinary items — other, included in the consolidated statement of income, are as follows:

	1971	1970
Distribution on Atlantic Acceptance senior secured notes in excess of carrying value	**$375,000**	$ —
Net gain on foreign exchange resulting from the freeing of the Canadian dollar	—	559,737
Write-down of Empire Clay assets to net realizable value due to plant shut-down	—	(607,329)
	$375,000	$(47,592)

16. Income Taxes

The loss carry-forward tax credits shown on the accompanying consolidated statement of income became available as a result of the application of tax losses of the Company and certain subsidiaries. It is expected that through utilization of loss carry-forwards, further reductions of future income taxes otherwise payable of approximately $5,000,000 will be available over the next few years.

17. Remuneration of Directors and Senior Officers

The total remuneration paid or payable by the Company and its subsidiaries to its directors and officers with respect to the year ended December 31, 1971 amounted to $267,000.

18. Subsequent Events

In January 1972, the Company purchased certain plant and facilities for the construction of prefabricated houses. The amount of the purchase was approximately $2,000,000 for which financing has been arranged.

AUDITORS' REPORT

To the Shareholders of Great Northern Capital Corporation Limited:

We have examined the consolidated balance sheet of Great Northern Capital Corporation Limited and its subsidiary companies as at December 31, 1971 and the consolidated statements of income, surplus, and variation in cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the sources and applications of their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 15, 1972

CLARKSON, GORDON & CO.
Chartered Accountants

GNC

SCHEDULE OF ASSETS AND RELATED LIABILITIES

Schedule "A"

as at December 31, 1971

	ASSETS		LIABILITIES			INTEREST RATES	
	(1) Market Value	Book Value	General	Specific	Self-Liquidating	Range	Weighted Average
Land Inventory:	(mill)	(mill)	(mill)	(mill)	(mill)	(%)	(%)
Canada							
Etobicoke, Ontario	$ 2.2	$ 0.8					
Burlington, Ontario	4.8	1.6		$0.4		6	6.00
Markham, Ontario	2.9	1.0					
Stouffville, Ontario	0.2	0.2		0.1		8	8.00
Oakville, Ontario	7.0	6.3		3.5		6-9½	7.86
Edmonton, Alberta	3.6	1.7					
Tsawwassen, B.C.	0.6	0.2					
United States							
Rainbow and Headlands	0.8	0.8		0.2		6-7½	6.20
Hemlock	3.9	1.8		0.8		6-9½	9.13
Lake in the Clouds	0.7	0.5		0.1		7	7.00
	$26.7	14.9					
Income Properties: (2)							
Toronto Professional Building	$5.9	5.3			$ 3.6	7	7.00
Heritage Square	1.1	1.1			0.8	9⅜	9.38
Other	1.3	1.3					
	$8.3	7.7					
Receivables and cash assets		12.1					
Leased assets (including current portion)		11.4			6.1	6-7⅞	7.07
Fixed assets		8.7					
Manufacturing inventory		3.4					
Joint venture and other investments		3.0					
Other assets		0.9					
		$62.1					
Bank indebtedness			$ 6.4				
Payables and accrued interest			5.2				
Deferred income taxes			.2				
Long-term debt							
General			14.3				
Specific			5.1	$5.1			
Self-liquidating			10.5		$10.5		
Shareholders' equity							
Capital stock			4.1				
Surplus			16.3				
			$62.1				

NOTES

(1) Market value of all land inventory and the Toronto Professional Building is based on a Montreal Trust Company appraisal of August, 1970. On the other income properties the book value was extended to the market value column.

(2) In addition to the properties shown in this balance sheet, the Company has investments in other income properties through joint ventures. This balance sheet reflects only the Company's equity in these joint ventures, as explained in note 7 to the consolidated financial statements.

Great Northern Capital Corporation Limited and its Subsidiary Companies

STATISTICAL REVIEW

Five Year Summary (In Thousands of Canadian Dollars)

Income	**1971**	1970	1969	1968	1967
Gross revenue:					
Sales of land and houses	**$12,788**	$ 9,794	$ 9,043	$ 9,034	$ 6,213
Rentals from income-producing properties	**1,109**	925	339	—	—
Manufacturing and other income	**18,171**	19,303	16,516	5,108	3,798
Leasing, interest and other income	**2,983**	2,396	734	732	372
Income before extraordinary items	**2,644**	1,033	693	2,054	440
Net income	**5,038**	3,234	2,230	3,822	958
Year-end Financial Position					
Total assets	**62,074**	60,710	44,540	20,164	18,837
Total shareholders' equity	**20,388**	14,613	11,372	8,335	4,366
Working capital	**4,682**	5,454	3,946	5,663	1,125
Ratio of current assets to current liabilities	**1.3 to 1**	1.3 to 1	1.4 to 1	2.4 to 1	1.2 to 1
Long-term debt	**27,065**	29,048	23,325	7,160	7,846
Ratio of long-term debt to shareholders' equity	**1.3 to 1**	2.0 to 1	2.0 to 1	.9 to 1	1.8 to 1
Amount per Share					
Earnings before extraordinary items*	**1.12**	0.44	0.30	0.99	0.21
Earnings after extraordinary items*	**2.14**	1.39	0.97	1.84	0.46
Cash flow from operations*	**2.73**	1.58	1.47	2.05	0.81
Shareholders' equity**	**8.26**	6.27	4.97	4.01	2.10
Fully diluted earnings before extraordinary items	**0.89**	0.47	0.34	0.76	0.21
Fully diluted earnings after extraordinary items	**1.57**	1.08	0.84	1.61	0.46

**based on weighted average number of shares outstanding during the year.*
***based on shares outstanding at end of the year.*

Directory

Great Northern Capital Corporation Limited
123 Edward Street, Toronto 101, Ontario.

GNC Industries Limited
Head Office,
123 Edward Street,
Toronto 101, Ontario.

GNC Industries Limited
Western Division
866 King Edward Street,
Winnipeg, Manitoba.

GNC Industries Limited
Brick Division
P.O. Box 248,
No. 5 Highway,
Burlington, Ontario.

Midwest Drilling
860 King Edward Street,
Winnipeg, Manitoba.

Wescore Drilling Limited
860 King Edward Street,
Winnipeg, Manitoba.

Delro Industries
1072 King Edward Street,
Winnipeg, Manitoba.

Midwest Diesel & Equipment
1100 King Edward Street,
Winnipeg, Manitoba.

Diamond Clay Products Limited
P.O. Box 248,
No. 5 Highway,
Burlington, Ontario.

Canadian Cutting and Coring Limited
Head Office,
866 King Edward Street,
Winnipeg, Manitoba.

Canadian Cutting and Coring
(Toronto) Limited
119 Skyway Avenue,
Rexdale, Ontario.

Canadian Cutting and Coring
(Vancouver) Limited,
1120 East Georgia Street,
Vancouver 131, British Columbia.

GNC Homes
B2100,
Woodstock, Ontario.

Home Smith Limited
Head Office,
123 Edward Street,
Toronto 101, Ontario.

Home Smith Properties Limited
Regional Office—Eastern Canada
35 Old Mill Road,
Toronto, Ontario.

Home Smith Properties Limited
Regional Office—Western Canada
2206 McCauley Plaza,
10025 Jasper Avenue,
Edmonton, Alberta.

Home Smith International Limited
Head Office,
123 Edward Street,
Toronto 101, Ontario.

Home Smith International Limited
U.S. Regional Office
222 Cedar Lane,
Teaneck, New Jersey 07666
U.S.A.

Hemlock Farms
Lords Valley,
Hawley, Pennsylvania,
U.S.A.

Lake in the Clouds
c/o Hemlock Farms
Lords Valley,
Hawley, Pennsylvania.
U.S.A.

Rainbow Lake Club
Town of Indian Lake,
New York 12842
U.S.A.

The Headlands
On Point Au Roche, Lake Champlain,
Box 695,
R.D. #2,
Plattsburgh, New York 12901
U.S.A.